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Discount retailers bulk up in Houston as economy stutters

By Allison Wollam, Reporter

Discount retailers are flocking to the Bayou City to try to lure customers from Walmart and Sam's, offering everything from appliances to luggage at bargain-basement prices.

While Joe V's Smart Shop has been busy building on its early success by expanding into its fourth location, a fast-growing rival, Abilene, Kan.-based Duckwell-Alco Stores Inc. (Nasdaq. DUCK), is set to make its own splash.

And word on the street is that Batavia, Ill.-based deep-discounter Aldi Inc. is also planning multiple stores in the area. I've heard from several sources that it has a real estate team in town scouting sites.

Alco opened its first location in the area at 1818 Gessner Road Nov. 19 and was expected to open a second store Nov. 25 in Pasadena, at 4200 B Pasadena Blvd.

No other stores are planned at this time but the retailer is scouting attractive locations in underserved communities, said Wayne Peterson, CFO of Alco Stores.

The Houston expansion is part of the retailer's push to expand into urban markets.

"Until recently, Alco has focused primarily on underserved markets with trade areas that have smaller populations and little or no direct competition from other national or regional broad-line retailers," he said. "Although Alco's focus remains on serving small-town America, a decision was made recently to launch a pilot project, adding stores in selected urban markets."

The 110-year-old discount retailer offers a variety of merchandise from food to paper goods, apparel to automotive, electronics, hardware, health and beauty aids, house wares, sporting goods and season items.

The company's stores average approximately 21,000 square feet, and the merchandise is distributed from Alco's 352,000-square-foot distribution center in Kansas.

Houston-based General Structural Development LP is the company's general contractor on the local stores, and Houston-based Uptown Designs was hired as the architect on the Pasadena location. Fort Worth-based

Jacobs Engineering Group Inc. designed the Houston location.

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The investment in the urban stores is about the same as the company's rural stores Peterson said.

He estimates the retailer invested approximately \$400,000 in fixtures, \$500,000 in inventory and approximately \$200,000 in leasehold improvements.

The company aims for a broad customer base interested in value-oriented merchandise, he said.

"We find that consumables and everyday items often bring people in, but then they discover so many other items at good value prices," Peterson said.

Meanwhile, Joe V's Smart Shop is planning to open its fourth store in the area Dec. 2 at 612 N. Victory, in the Acres Homes area.

The success of the first three Houston locations – at Antoine Drive, Uvalde Road and West 43rd – paved the way for the newest Houston store. Joe V's, which is owned by San Antonio-based H-E-B Grocery Co., made its Houston debut in May 2010.

To help keep costs low, a tight inventory of 6,500 items is sold in the store, including grocery, meat, produce, drug and bakery as well as personal care and pet items. This is compared to the more than 37,000 items sold in a typical grocery store.

Jason Baker, a principal at Houston-based Baker Katz LLC, a real estate brokerage firm, said some of the reasoning behind the sudden spurt in new discount stores can be traced to an interesting source: fast-food dining habits.

Due to uncertain economic conditions, Baker said the "dinner" portion of fast-food menus – typically the least – popular among customers compared to breakfast or lunch – is now the fastest area of revenue growth.

"What does that tell us? The family that was eating out at Chili's is now eating out at McDonald's," he said. "In large part, people – and I'm really speaking more to

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the general population here, not the top 1 percent wage earners – are continuing to trade down not up. And it's as true with dining as it is with apparel/soft goods and other categories of retail. If anyone is enjoying the economic climate we're in, it's the discounters.”
